

G-010/GR-90-678 SETTING INTERIM RATES

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Darrel L. Peterson	Chair
Cynthia A. Kitlinski	Commissioner
Norma McKanna	Commissioner
Robert J. O'Keefe	Commissioner
Patrice Vick	Commissioner

In the Matter of the Application of Midwest Gas, a Division of Iowa Public Service Company, for Authority to Increase its Rates for Gas Service in the State of Minnesota

ISSUE DATE: November 9, 1990

DOCKET NO. G-010/GR-90-678

ORDER SETTING INTERIM RATES

PROCEDURAL HISTORY

On September 14, 1990, Midwest Gas (Midwest or the Company), a division of Iowa Public Service Company, filed a petition seeking a general rate increase of \$2,590,902, or 5.69%. Along with the rate increase petition, the Company filed a proposed interim rate schedule, to be effective November 13, 1990. The interim rate request, if allowed, would increase present revenues by \$1,212,782, or approximately 2.66%.

On October 16, 1990, the Commission issued its NOTICE AND ORDER FOR HEARING, in which the Commission referred the general rate case to the Office of Administrative Hearings for contested case proceedings.

The Commission also issued its ORDER ACCEPTING FILING AND SUSPENDING RATES in this proceeding on October 16, 1990. Under Minn. Stat. § 216B.16, subd. 3 (1988) if rates are suspended the Commission must set an interim rate schedule within 60 days of the Company's initial rate petition.

The Company's proposed interim rates came before the Commission for consideration on November 1, 1990.

FINDINGS AND CONCLUSIONS

The Interim Rate Statute

Minn. Stat. § 216B.16, subd. 3 (1988) states in part as follows:

***** Unless the commission finds that exigent circumstances exist, the interim rate schedule shall be calculated using the proposed test year cost of capital, rate base, and expenses, except that it shall include: (1) a rate of return on common equity for the utility equal to that authorized by the commission in the utility's most recent rate proceeding; (2) rate base or expense items the same in nature and kind as those allowed by a currently effective order of the commission in the utility's most recent rate proceeding; and (3) no change in the existing rate design *****

The Company Proposal

Midwest proposed an interim rate increase of \$1,212,782, based on the following financial summary:

Rate Base	\$36,195,759
Rate of Return	10.608%
Required Operating Income	3,839,646
Net Operating Income	3,117,677
Income Deficiency	721,969
Revenue Conversion Factor	1.679825
Revenue Deficiency	\$ 1,212,782

The most recent rate proceeding affecting Midwest Gas was actually filed by its predecessor company, North Central Public Service Company (North Central). In the Matter of the Application of North Central Public Service Company, a Division of Donovan Companies, Inc., for Authority to Increase Rates for Gas Utility Service in Minnesota, Docket No. G-010/GR-83-333, FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDER (March 23, 1984). Proposed interim rate factors must be compared with the North Central factors to determine if they remain unchanged or of the same nature and kind as those in the utility's last rate proceeding.

Rate Base and Expense Issues

Rate Base

In its interim rate filing, Midwest proposed a rate base of \$36,195,759. The rate base approved in the last general rate case was \$16,385,679. The Company explained that the increase was due to investment in plant to serve over 24,000 added customers in the last seven years. Although Midwest proposed the inclusion of two 1991 construction projects in its rate base for final rates, the Company properly excluded the projects from the interim rate base because they fall outside the 1990 test year. Midwest also requested inclusion in final rates of the acquisition adjustment resulting from Iowa Public Service Company's purchase of North Central. Midwest properly excluded the acquisition adjustment for interim rates under the "same in nature and kind" provision of the interim rates statute. The Commission will approve the Company's proposed interim rate base.

Income and Expense Items

In the North Central rate case, North Central Public Service Company signed a stipulation agreeing to remove Chamber of Commerce dues from expenses. In the current interim rate filing, Midwest Gas included Chamber of Commerce dues of \$1,530 in test year expenses. The Commission finds that these dues must be excluded from expenses because they are not "the same in nature and kind"

as those allowed in the utility's most recent rate proceeding.

A change must also be made to the Company's Nonsufficient Fund (NSF) check charge as filed. Midwest recently obtained Commission approval of an increase in NSF charges from \$3.00 per check to \$12.00. Midwest has estimated the annual revenue impact of the increase at \$5,724 (\$9/check x 53 checks/month x 12 months). The increased tariff will be in effect during the final month of the test year period, December 1990, for an estimated revenue impact of \$477. This increase was not included in the interim rates filing. The Commission finds that the approval of the NSF check charge increase constitutes an exigent circumstance which should be reflected in the determination of interim rates. Accordingly, the Commission finds that the Company's test year revenues for interim rate purposes must be adjusted to include \$477 of additional NSF check charges.

Interim Rate of Return

The Company's Proposal

Midwest proposed the following capital structure and cost rates for interim rates (and for final rates):

<u>Type of Capital</u>	<u>Ratio</u>	<u>Cost</u>	<u>Weighted Cost</u>
Long Term Debt	44.50%	8.591%	3.823%
Short Term Debt	4.10%	8.473%	0.348%
Preferred Stock	9.32%	6.984%	0.651%
Common Stock (Equity)	42.08%	13.750%	5.786%
Total	100.00%		10.608%

In the North Central general rate case, the Commission adopted the following capital structure and rates for the utility's cost of capital:

Long Term Debt	43.91%	11.950%	5.250%
Common Stock (Equity)	56.09%	14.900%	8.360%
Total	100.00%		13.610%

Rate of Return on Common Stock

Midwest's proposed rate of return on common stock, 13.750%, is lower than the 14.900% approved in the North Central general rate case. Minnesota Stat. § 216B.16, subd. 3 requires an interim rate of return on common equity equal to that authorized in the last general rate proceeding, unless exigent circumstances exist.

Minn. Stat. § 216B.16, subd. 3 was enacted in 1984, an inflationary time when utilities were requesting greatly increased returns on equity. The statute was meant to reduce the effects of these increases and to minimize overcollections by holding utilities to previous levels during the interim rate period.

In a previous proceeding regarding Interstate Power Company, the Commission made a finding of

exigent circumstances when the utility requested an interim rate of return on common equity which was lower than the rate approved in the utility's most recent rate proceeding:

The Commission concludes that it is reasonable to calculate interim rates using a return on equity different from that allowed in Interstate's most recent electric rate proceeding. To minimize the likely overcollection by the Company during the interim period and to fulfill the intent of the statute, immediate action to reduce interim rates is necessary. This is accomplished by using the lower rate of return on common equity ***** to calculate interim rates *****¹

In the present case, as in the Interstate case, the utility has requested a lower return on equity than allowed in its last rate case. The danger of overcollection here lies in the fact that the Commission will likely approve a final return on equity lower than that set in the last rate case. The statutory goal of avoiding overcollection would best be served by allowing the lower interim rate. The Commission finds exigent circumstances which justify an interim rate of return lower than that of the last general rate case.

Capital Structure

The capital structure proposed by Midwest for interim rate purposes is significantly different from the one approved in its last rate case. North Central Public Service, the predecessor to Midwest, used the unconsolidated capital structure of the Donovan Companies, Inc., its parent company, in its rate filing. North Central was part of the Donovan Companies enterprise, which was involved in construction, mining, real estate and insurance, as well as gas service. In the present case, Midwest used the capital structure of its parent company, Iowa Public Service Company. Iowa Public Service Company, with operations in Iowa, Minnesota, Nebraska and South Dakota, is totally devoted to gas and electric service. Midwest operations in Minnesota form a significant part of the parent company's operating revenue. Use of the capital structure of Midwest's parent company is clearly more appropriate than the use of the capital structure of a company unrelated to Midwest. The Commission will approve the capital structure proposed by Midwest for interim rate purposes.

Interim Rate Design

Midwest requested an interim rate increase of \$1,212,782, to be collected through an equal percentage increase in the commodity margin for each class of customer. After taking into account the service charge and cost of gas revenues, the proposed overall revenue increase was approximately 2.66%.

A slight adjustment must be made to the revenue deficiency, and therefore the commodity margins, as estimated by the Company. The removal of Chamber of Commerce dues and the increased NSF charges result in a change in projected income deficiency from \$721,969 to \$720,773.

¹ In the Matter of the Application of Interstate Power Company for Authority to Increase its Rates for Electric Service in Minnesota, Docket No. E-001/GR-86-384, ORDER SETTING INTERIM RATES (August 28, 1986), at page 4.

The Commission finds that the Company's proposed method for allocating the increase among customer classes follows the statutory prohibition against change in rate design. The structure of the individual rate schedules remains unchanged from the last prior rate case, as does the relationship among the commodity margins paid by the various customer classes.

The Company's rate design, as adjusted above, is equitable and follows statutory standards. The Commission will approve the adjusted rate design.

Commission Action

Based on the findings and conclusions above, the Commission will authorize an interim revenue increase of \$1,210,773, or 2.66% of revenues under current rates, for Midwest Gas. The interim rate schedule will be effective on November 13, 1990.

Interim rates are collected subject to refund in the event the interim rate level exceeds the final rate level allowed in the general rate case. Minn. Stat. § 216B.16, subd. 3 (1988).

ORDER

1. Midwest Gas Company is authorized to collect \$1,210,773 in additional annual revenues, or 2.66% of revenues under current rates. The interim rate schedule will be effective on November 13, 1990.
2. Within seven days of the date of this Order, the Company shall file with the Commission and the Department of Public Service interim tariff sheets and supporting documentation reflecting the decisions herein.
3. The Company shall keep such records of sales and collections under interim rates as will be necessary to compute a potential refund. Any refund shall be made within 120 days of the effective date of the Commission's final Order in a manner approved by the Commission.
4. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster
Executive Secretary

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